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C O N F I D E N T I A L SECTION 01 OF 02 TBILISI 000122

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TAGS: [PREL](#) [ENRG](#) [PGOV](#) [RU](#) [GG](#)  
SUBJECT: GEORGIA OKAYS GAS TO SOUTH OSSETIA, ITERA ONLY  
AWAITS RUSSIAN APPROVAL

Classified By: Ambassador John F. Tefft for reasons 1.4 (b) and (d).

¶1. (C) Summary: On January 20, the Georgian Government issued an exception to the Law on Occupied Territories to Itera-Georgia in order to provide gas to South Ossetia. Itera-Georgia General Director David Beradze confirmed that Itera concluded a commercial contract with South Ossetia on January 22 and are now only waiting on the Russian bureaucracy to allow gas to flow to Tskhinvali. The gas supplied to South Ossetia will come from GazProm and be sold on a commercial basis to South Ossetia at 645 GEL per thousand cubic meters (tcm). South Ossetia has prepaid a portion of the contract already. Beradze said that once he receives confirmation that the Russian Customs Service has provided the necessary documents to allow for the gas transfer, Itera will immediately begin to pump gas to Tskhinvali. He hoped gas could be flowing as soon as January 24, but thought perhaps January 26 might be more likely. End Summary.

¶2. (C) Comment: Despite claims by some to the contrary, it was the South Ossetian and Russian refusal to allow OSCE technical experts and Georgian Oil and Gas Company engineers to manually examine and repair the line following the August conflict that slowed the return of gas to Tskhinvali. During the last Geneva discussion in mid-December, the Georgians pledged to move quickly to resolve the problem, noting that only South Ossetian cooperation was required. After a continued lack of access to the pipeline in disputed territory, the Georgians, with OSCE assistance, conducted two pressure tests to locate additional leaks. Once a second leak was discovered on undisputed Georgian territory and repaired, gas was again able to flow and the Georgian Government quickly approved an exception to legislation to allow gas to be commercially sold to Tskhinvali. While Itera-Georgia has received pre-payment from the South Ossetians, Beradze clearly gave the impression that Itera might not be paid for all of the gas. While he didn't say that Itera was receiving gas at lower cost from GazProm in order to sell it to South Ossetia, it was clear that deals had been made in Moscow with Itera-Russia. End Comment.

GEORGIANS QUICKLY PERMIT GAS FLOW TO TSKHINVALI

¶3. (C) Beradze stressed that the Georgian Government has been very cooperative in returning gas to South Ossetia, noting that it was the South Ossetian refusal to allow the line to be repaired following the conflict that caused delays. He stressed that his company lost considerable money in both Gori and South Ossetia during and directly following the conflict, as significant amounts of gas were lost due to war damage to the pipeline. Beradze said that Itera only requested an exemption from the Law on Occupied Territories on Thursday, January 15. He pointed out that given the weekend and local religious holiday on January 19, Itera received an answer from the Georgian Government in only two working days.

# ITERA AND OSSETIANS REACH A COMMERCIAL AGREEMENT

14. (C) Itera and the South Ossetians reached a commercial agreement on January 22. Beradze said that Itera will sell Russian gas, purchased from GazProm, to South Ossetia at the commercial rate. This will be the only commercial gas Itera, or for that matter any other gas distribution company in Georgia, will be purchasing from Russia. Beradze said that currently Azeri gas from SOCAR is selling anywhere from 10 to 20 USD cheaper per tcm, making it much more commercially attractive.

15. (C) Beradze confirmed that GazProm helped rehabilitate part of the gas pipeline within South Ossetia and installed a new regulator valve in Tskhinvali that reportedly can withstand 10 bar pressure. He said the South Ossetians are asking for Itera to provide gas at 10 bar. Even with renovations, Beradze said he believes this amount of pressure will eventually blow the line. Due to this concern, and in part because his company has been unable to inspect the line itself, he said Itera has informed the South Ossetians that they only intend to provide gas at five bar until they can be assured the line can handle the pressure.

## WAITING FOR THE RUSSIANS

16. (C) Beradze said that the only barrier that is now keeping the gas from flowing is the Russian bureaucracy. He said that the agreement is currently with Russian Customs which must issue an order allowing the gas to be sold and transited through Georgia. Beradze said that only when Itera-Moscow receives these documents will the company

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repressurize the line and send gas into South Ossetia. When Itera-Georgia receives the necessary assurances, it will immediately begin to pump existing commercial gas from non-Russian sources into the pipeline to speed delivery in South Ossetia. Beradze said this process will take no more than two hours in order to build the necessary pressure and start delivery to end users.

TEFFT